

Bee

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# OPINION

## Water, power and PG&E

### Who will run the state's hydro projects?

**T**he proposal seems so simple at first blush – to allow one of PG&E Corp.'s subsidiaries (its generating company) to buy from another (the regulated utility) its Northern California hydroelectric facilities. Yet this proposal is quickly becoming one of the state's most complex and important water and energy policy questions. It demands not only careful handling by the state Public Utilities Commission, but the attention of local governments, environmental groups, legislators and farmers – all of whom may be tempted to avoid the mind-numbing details of energy policy.

Most of the waters that flow through the basins that feed the Sacramento-San Joaquin Delta are managed at some point on their downhill journey by PG&E facilities. The hydroelectric system stretches from the Redding area in the north to near Bakersfield in the south. The utility operates 99 reservoirs, 184 miles of canals, 68 powerhouses, 135 miles of tunnels and owns tens of thousands of acres of valuable, pristine watershed. PG&E has been generally a fine steward of these lands and facilities.

**B**ut the regulatory world is changing, and changing quickly. State legislators in 1996 launched a restructuring to promote competition in the generation of electricity. PG&E has already auctioned off the fossil-fuel generating facilities once operated by its regulated utility. PG&E Corp. seeks to maintain the hydros, however, by having its utility arm sell the plants to its unregulated, for-profit generating subsidiary. The price would be arranged through an appraisal process.

From its narrow, for-profit perspective, PG&E

Corp.'s desire to avoid a bidding war and hold onto these hydro plants in an unregulated subsidiary is understandable. These plants not only produce 15 percent of the state's electricity, but are uniquely suited to make huge profits in an emerging market that allows wholesale electricity prices to fluctuate wildly. Hydro plants are best at quickly producing power on those hot summer days when demand and market prices are at their peak.

**T**hese reservoirs, however, serve a far broader public purpose than producing optimum profits for shareholders. It is this very public purpose that helped PG&E through the years to secure these 94 contracts for water rights. The entity that owns them, the reservoirs and the powerhouses will virtually control scheduled releases on 30 major rivers and streams throughout Northern California. The owner "has their hands on the spigot for the fresh water in California and can do considerable mischief," in the all-too-true words of the Association of California Water Agencies.

California must have responsible stewards running these hydroelectric facilities. But who? And how can the PUC assure such an outcome? Should the government purchase these facilities? Should the PUC require that these facilities remain in the regulated PG&E utility company and not its unregulated generation company? Does the PUC even have the authority to do so?

These are just a few of the questions. The PUC, with a tough job ahead that begins with a hearing this Tuesday, must come up with the right answers.